

Minutes of the meeting held on December 1, 2022

Present: Francis Murphy - Chair, Michael Gardner, Nadia Chamblin-Foster, John Shinkwin, Joseph McCann, David Kale, Ellen Philbin, Rafik Ghazarian, and Chris Burns.

The meeting was called to order at 11:01 AM. The meeting was digitally recorded. The entire meeting was conducted by Webex videoconference.

Agenda Item # 1 – Segal Marco Advisors

Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending September 30, 2022. Ghazarian noted that there was no place to hide in the third quarter. Returns were sharply negative across virtually all asset classes. Real estate and hedge funds were flat. There was some recovery in October. Ghazarian stated that it was likely that returns for 2022 would be negative over the full calendar year.

Ghazarian reviewed the fund's asset allocation. The recent losses have left the fund under allocated to equities and fixed income. Real estate and private equity are over their targets. He said he would not recommend any immediate move to rebalance. He stated that the recovery in October and November should bring the portfolio closer to targets. He noted that in the third quarter, the system funded a new fixed income manager, Garcia Hamilton, with \$40 million. PERAC approved the hire of Acadian and RBC and those managers should be funded in the first quarter of 2023, once the contracts are finalized.

Ghazarian discussed the performance of the overall fund and individual managers. Ghazarian stated that does not have serious concerns about any particular manager. He did note that he hoped to hear some explanations from Pinebridge about their recent underperformance.

Ghazarian reviewed a private equity cash flow study prepared by Segal Marco. After calculating likely capital calls and expected returns, Segal has recommended that the system commit \$20 million to the PRIT private equity fund in 2023, and to plan to allocate the same amount in 2024. The system is already overallocated to private equity but as distributions pick up with older funds, it is necessary to continue allocating more money each year in order to keep up. Gardner asked how likely it would be for PRIT to draw the full commitment for 2023. Ghazarian stated that PRIT has drawn close to the full commitment every year since 2017. However, it appears that deal flow has slowed over the last year, so there is a possibility that commitments in 2022 and 2023 won't be fully drawn. Motion by Gardner, seconded by Shinkwin to commit \$20 million to the PRIT 2023 Private Equity Fund. Voted unanimously.

Theodore Bair and Daved Langguth represented Mellon. A written portfolio review was presented to the Board. The firm currently has \$1.8 trillion in assets under management, including \$375 billion in index assets. This was a decline from the prior year, mainly due to the fall in the index markets. The fund has retained 31 new clients over the last year. There were no changes to the management team or strategy in the index portfolio. Langguth described the firm's diversity efforts and reviewed the number of women and ethnic minorities among the workforce, management and Board of Directors at Mellon. By the end of 2023, the firm aims to achieve a 15% increase in Black and Latin American representation in the workforce and a 30% increase at the level of senior management. Bair discussed the firm's efforts to cut costs by minimizing trades. He noted that Mellon completed a multi-year process of moving the operating platform to a new system called Aladdin.

Cambridge is currently invested in two index funds through Mellon. The system invests \$89 million in a small cap index and \$77 million in an Emerging Markets index. Both funds are

securities lending products, which generates a small extra return. Since inception, the small cap index has returned 3.44% annually net of fees. The small cap product is a full replication of the Russell 2000 index. The Emerging Markets fund has returned -3.63% annually since inception. This EM product uses some sampling in order to provide representative exposure to the companies in the index but does not replicate the full portfolio. Bair stated that Russian securities were part of the Emerging Markets index at the beginning of 2022, but MSCI removed them from the index after the invasion of Ukraine. Mellon continues to hold 27 Russian stocks and is unable to sell them. They are currently marked at zero value.

Amy Haynes and Jackson Weiss represented Manulife Investment Management. A written overview of the portfolio was presented to the Board. Cambridge currently invests in two Manulife funds. Hancock Timberland X is a closed-end fund with a 2004 inception date. The Hancock Timberland and Farmland Fund is an open-ended fund with a 2018 inception date. Weiss reviewed the firm's diversity initiatives. He noted that forestry has historically been a male-dominated field although the firm is working to hire a more diverse workforce. Weiss stated that Tony Cascio, Deputy CIO retired and was replaced by Nick Ping, who is based in Australia. Weiss stated that Manulife has launched a Forest Carbon fund. The focus is on ESG investors trying to generate carbon credits or offsets.

Haynes reviewed the performance of the Timber/Farmland fund. Cambridge committed \$15 million to HTFF in 2018, which has been fully called. Cambridge committed an additional \$30 million in July 2021. As of November, the fund has called \$4.5 million of the latest commitment. The fund has made \$1 million in distributions. In 2022, the fund purchased an almond/pistachio/citrus orchard in California and a Pine tree plantation in Florida. The fund is now evenly weighted between timber and farmland. She also discussed farmland-plus strategies which may include processing facilities and marketing. The fund currently owns a fruit processing facility in Chile. Over the last year, the fund returns 4.05% net of fees. Foreign currency effects were a drag on performance. The fund maintains a strong acquisition pipeline and is likely to close several new properties in 2023. The Chairman asked if the fund had run into any supply chain issues. Haynes described the vertically integrated fruit orchard in Chile, noting that much of the crop was exported to China. Chinese ports were shut down during COVID, although they are now opening up again. The fund has worked to develop more export markets and to sell more to the Chilean domestic market.

Weiss reviewed the performance of Fund X. Cambridge committed \$12.3 million, and the entire amount has been called. The fund has made \$3.5 million in distributions. The current value of the fund is appraised at \$17.3 million. The total portfolio consists of 477,000 acres of timberland. The properties are located in the Pacific Northwest, Louisiana and Queensland, Australia. The fund returned 7.4% net over the last year and 8.4% annually since inception. Weiss noted that demand for timber has been high, driven by a strong construction market. There has been good appreciation over the last 18 months, but that is not reflected in the most recent returns. He said that after the 2022 appraisals are complete, he would expect further returns from property appreciation. Weiss briefly reviewed the new investment from Stafford Capital partners, which will close at the end of the year. This will extend the fund for at least another 12 years and lower the management fee.

Francesco Daniele represented the PRIT Fund. A written portfolio report was submitted to the Board. He noted that 2022 was a difficult year and that he would expect volatility to continue going forward. Over the last year, the real estate fund made eleven acquisitions and three dispositions. The fund is overweighted to apartments. The office sleeve is tilted toward medical offices and lab space, which have held up well. Private Equity remains the best performing asset class over the long term, although in the last year, has returned only 5.3%. The fund remains fairly liquid. Daniele noted this as a distinct advantage as other public funds with significant

cash flow needs have not been able to invest as much in private equity funds. The private equity sleeve is now authorized to invest up to 40% of each vintage year fund in direct co-investments, which have no management fee. Daniele said he was not sure of the actual amount in co-investments over the last year and offered to report back. Gardner requested that Daniele provide the percentage of co-investments in each of the vintage year funds. The hedge fund portfolio has shown a loss of 2% over the trailing year.

Gardner asked if the fund has any exposure to cryptocurrencies. Daniele stated that there was nothing in the hedge fund sleeve but some exposure within certain private equity investments. Burns asked if the private equity funds managed by Sequoia and Insight had invested in FTX. Daniele stated that the Sequoia funds were only invested in China. He declined to state specifically which other funds were invested in FTX, but he confirmed that there was some exposure. He described it as de minimis. Ghazarian requested that Daniele provide exact numbers about the amount lost in the FTX bankruptcy. Ghazarian asked about the 2022 private equity commitment. Cambridge committed \$20 million with only \$2.5 million drawn so far. Daniele stated that he expected the entire amount to be called eventually.

Gardner asked Daniele to comment on the recent hedge fund performance during the down market. He stated that they felt the portfolio was performing as designed. There have been some losses, but significantly less than the fixed income and equity markets. Gardner also asked if PRIT was involved in carbon capture projects or other properties that would rely on the sale of carbon credits. Daniele noted that there are significant timberland investments but could not offer any specifics beyond that.

Daniele reviewed changes to the asset allocation targets. They have targeted an additional 1% allocation to private equity and cut global equity by 1%. The fund is currently near the top of the range for private equity, but Daniele stated that the fund is not moving to sell any funds on the secondary market. The investment committee will be meeting to discuss possible changes for 2023. Daniele offered to meet with the Board again after February to discuss those changes and to have the Board meet with members of the private equity team.

Michele Cameron and Meredith Mannix represented IFM Investors. A written portfolio review was presented to the Board. There have been no changes to the portfolio management or strategy over the last year. Cameron reviewed diversity initiatives. She noted that the Board is majority-female. In 2022, IFM launched a new Net Zero Infrastructure Fund, focused on projects to transition to carbon-free energy. Cameron described three new acquisitions in the Global Infrastructure Fund, while also noting that they have committed \$500 million into the Net Zero Fund. One is GlasfaserPlus, a 50/50 joint venture with Deutsche Telecom. The firm is rolling out broadband internet in rural Germany. IFM also acquired a 15% interest in Sydney Airport. The other acquisition was Atlas Arteria, which runs toll roads in France, Germany and the United States. Over the last year, the fund has a net return of 7.8%, and has now returned 11.9% annually since inception. Cambridge has opted to reinvest all distributions in the fund. Cameron noted that the portfolio has performed well. Air travel continues to rebound and has been reported to be at 73% of the pre-COVID peak. Road traffic has completely recovered to pre-COVID levels. The fund currently has an entry queue, with \$5.2 billion in uncalled commitments. The fund has good deal flow, and Cameron stated she expected money to be drawn quickly. Gardner requested that IFM provide more information about the types of projects that the Net Zero fund is investing in.

Joy Booker, Jeremy Burton and Tom Cosmer represented PineBridge Investments. A written portfolio review was presented to the Board. There have been no changes to the portfolio management or strategy over the last year. Booker reviewed charts showing the number of female and minority hires and promotions over the last five years. The statistics show that the number of diverse hires has trended down since 2017. PineBridge has tried to encourage the

formation of employee resource groups. The firm has also invested in sponsoring internships. PineBridge now has \$133 billion in assets under management, and 700 employees. The firm has committed to the Net Zero Management initiative, which targets zero greenhouse gas emissions by 2050. Burton described the investment strategy. He noted that they invest in bank loans, mainly floating rate debt, and all broadly syndicated. Bank loans have significantly outperformed other fixed income products because there is less interest rate risk. Over the last year, the fund has returned -2.04% vs. the benchmark at -1.78%. Burton said that he was pleased with the fund's security selection and that they were able to avoid some blowups that were in the benchmark. The fund was hurt by a holding of high-yield, fixed rate debt. This comprised 5% of the portfolio at the start of 2022 but has now been cut back. Looking ahead, Burton said he would forecast strong returns over the next 2-3 years. He said that he was anticipating a recession, but not a long or severe one. He said he did not expect defaults to exceed 4% of the portfolio. Defaults over the last two years have been close to zero. Burton described how floating rate loans are recalculated, with a base rate from SOFR which can then be adjusted every 1-3 months based on current interest rates. Ghazarian noted that Segal has measured PineBridge's performance against the MorningSide USTA Leveraged Loan index. This index shows a significant underperformance. Burton confirmed that it was the correct index, but their own report uses an old name. Burton stated that he believed that the 300-basis point underperformance in Segal's report was an error. He offered to work with Segal to determine if there was a discrepancy. Booker reported that one portfolio manager, John Lapham, died suddenly in October. His co-manager, Steven Oh, is now managing the account himself.

Travis Funk and Andy Hoyt represented Campbell. A written portfolio review was presented to the Board. Funk stated that he joined Campbell in February, following the departure of Stephen King. Campbell recently had their first close on a new Climate Solutions & Forestry fund. In 2022, the fund acquired 9,400 hectares of Chilean timberlands. The fund owns other properties in Chile, Australia and New Zealand. Timber prices worldwide have been quite strong. There has been strong demand due to home remodeling and new construction. It does appear that there is now some slowdown of new residential development. In 2020, China also imposed new restrictions on importing timber from Queensland. This situation does not appear likely to be resolved soon, and the firm is attempting to pivot to exporting timber to other markets. The fund returned 9.5% net of fees over the last year. The Australian properties are now the strongest drivers of performance. The Chilean properties are newer, and with less developed trees. As these trees mature, they should generate stronger returns. Gardner asked about the risks to the portfolio due to climate change. Hoyt noted that rising temperatures result in an increased risk of fire at the properties, especially in the Australian properties which have a drier climate. The investment period for the current fund has ended. The fund is scheduled to terminate at the end of 2028, or no later than 2031 if an extension is approved.

McCann moved to adjourn at 3:15 PM.